

IPI: Pipeline to Prosperity

View from Washington

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In normal times, a pipeline connecting India and Pakistan would have been welcome news in Washington. There is nothing like a multibillion dollar joint economic project to create interdependence and hence reduce tension between South Asia's two traditionally adversarial nuclear powers. But these are not normal times and with the risk of war in South Asia greatly diminished, America's top foreign policy priority is preventing the proliferation of terrorism, radical Islam and, above all, nuclear weapons.

In this, the prime challenge is Iran, which defies the international community by developing nuclear capabilities, supplies militias in Iraq with weapons used to kill American troops, trains and funds groups like Hizballah and Hamas and calls for Israel to be "wiped off the map". This is why the planned US\$7 billion Iran-Pakistan-India (IPI) natural gas pipeline – which would provide the Islamic Republic an economic lifeline at a time when the US and its European allies are trying to weaken it economically and also create an unbreakable long term political and economic dependence of India and Pakistan on one of the world's most dangerous regimes – is not to Washington's liking.

The proposed 2,600-kilometer pipeline which is currently moving into high gear puts both Pakistan and India in the front line of an economic war currently taking place between Washington and Tehran. America's strategy to weaken the Iranian regime can only succeed through a multinational effort to cut investment in Iran's energy sector.

Despite its vast oil and gas reserves Iran is suffering a staggering decline in oil exports caused by lack of investment by foreign energy companies. Sanctions originally imposed in 1995 by President Bill Clinton and renewed by President Bush prohibit US companies and their foreign subsidiaries from conducting business with Iran, while banning the financing of the development of the country's energy resources. In addition, the US Iran-Libya Sanctions Act (ILSA) of 1996 imposes sanctions on non-US companies investing more than US\$20 million annually in the Iranian oil and natural gas sectors. The 2006 Iran Freedom Act (IFSA)

extended ILSA until December 2011. As a result of these sanctions, investment in Iran's energy sector has plummeted, and Iran exports 2.34 million barrels of oil per day, about 300,000 barrels below its OPEC quota.

According to Iranian officials, if the decline in investment continues, income from oil and gas sales could virtually disappear within a decade. With oil and gas exports accounting for half the government's budget and around 80-90 percent of total export earnings, this spells trouble for the Mullahs' regime which already faces the worst economic crisis since the 1970s. The feeling among many in Washington is that Iran is closer than ever to the abyss and by ratcheting the economic pressure the West can eventually bring about a regime change. Which is why any attempt by Iran's neighbours and clients to give its energy industry a shot in the arm is viewed by Washington as a quasi-hostile move.

US officials as senior as Secretary of State Condoleezza Rice have expressed their concern about the IPI pipeline and Congress is gearing for the introduction of punitive measures against foreign companies investing in Iran. Traditionally, US presidents have been reluctant to apply ILSA sanctions to companies from countries allied to Washington. Now the powerful chairman of the House Committee on Foreign Affairs, Tom Lantos, is promoting a bill – the Iran Counter-Proliferation Act of 2007 – that seeks to strip the President of his authority to waive sanctions against such companies, a move that will surely hurt Indian business conglomerates working in Iran.

In a clear departure from America's long standing non-proliferation regime the US Congress also approved last year a landmark deal giving India access to the global market for nuclear fuel and technologies to enhance India's civil nuclear power industry, as an alternative to natural gas based power. If India insists on building the pipeline there are likely to be many calls on Capitol Hill to reconsider this dispensation. Yet, India seems to be bent on moving forward unfazed by the impact such policy might have on its bilateral relations with the US. In a recent visit to Delhi, US Energy Secretary Samuel was told by his Indian counterparts that it was none of America's business to advise what India should do on the pipeline issue.

In all fairness to the Indians, one should view their obstinacy in the context of their energy predicament. India's domestic gas supply meets barely half its fast growing demand, and with projected 7-8 percent annual growth, the country has to ensure reliable supply of affordable energy. As long as natural gas is used to move India's power turbines, Iran, geographically closest to India, will be the lowest cost supplier.

While for India the pipeline is almost a must, Pakistan can afford to kill the project and reap many diplomatic and economic benefits without compromising its energy security. Should it decide to do so it could opt for an alternative energy route such as the proposed US\$2 billion Turkmenistan-Afghanistan-Pakistan (TAP) gas pipeline which would carry gas from Daulatabad in Turkmenistan via Herat Afghanistan to Multan. For an additional US\$500 million TAP can be extended to Fazilka on the Pakistan-India border and hence provide gas

to India as well. At a later stage TAP could be expanded further to connect other fields in Central Asia to Gwadar, turning the new port into one of the world's most important energy hubs.

From an energy security standpoint TAP could provide Pakistan with 3,350 million meters cubic feet per day (mm cfpd) of gas, more than the 2,230 mm cfpd the IPI is planned to carry. Economically, shifting from IPI to TAP should be of no consequence. The potential revenue of the IPI, US\$700 million in transit fees alone, would be collected too were TAP extended to India. TAP will also save Pakistan the need to depend on Iran which has never been a good neighbour due to its role in spreading Shia militancy in the predominantly Sunni Pakistan. Furthermore, Iran is not a reliable supplier. Last winter it failed to meet its contractual agreements to Turkey resulting in the disruption of gas supplies to Turkey during the winter. Running through the restive province of Balochistan, the IPI will face constant threats its reliability due to sabotage by Baloch insurgents.

The US will no doubt try to persuade Pakistan to opt for a project that does not compromise its strategic objectives in the region and is likely to offer Islamabad handsome financial incentives above and beyond the US\$1-billion-plus yearly aid that it has been advancing to Pakistan since 2002. No doubt Pakistan and India, both projected to face major gas shortfalls, have a great deal to gain from pursuing the IPI pipeline. But as they mull their energy security strategy and examine alternatives, they should consider not only the risk of compromising their relations with the US but also that of facilitating the nuclearization of Iran and subsequently the entire Middle East.

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